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Verne, B. Michael

From: [redacted]
Sent: Thursday, September 27, 2012 3:27 PM
To: Verne, B. Michael
Cc: [redacted]
Subject: Valuation of partnership interests

Hi, Mike,

Please call to discuss if you have questions about the scenario described below:

X will acquire control of a partnership ("Target") in exchange for $65 million. The purchase price could be adjusted upwards post-closing to take into account working capital adjustments. I understand that so long as such adjustments can be reasonably estimated before closing, our acquisition price would be considered determined taking into account such estimate. In addition, however, X could pay the sellers up to $10 million post-closing to reimburse them for certain capital expenditures that it makes sense for Target to start on now (if the transaction does not close, Seller would just bear that cost; if the transaction does close, buyer would bear it). Could we take the position that the capital expenditure reimbursement is not compensation for the partnership interests being acquired, but is instead more akin to transaction expenses for which the buyer compensates the seller, and therefore such payment would not be considered part of the acquisition price for Target?

It is possible that some of Target's current partners will be rollover holders. If they retain their interests directly in the Target, we would not include the value of such interests in the acquisition price paid by X. What if instead of retaining their interests directly in the Target, they were given the same percentage that they would otherwise retain of voting securities or equity in X, the entity newly formed to acquire the Target that holds no other assets besides target? Would the value of such equity be considered part of the acquisition price for the Target, or would it be treated as if such equity just remained at Target and was not acquired by X (as it is the same economic impact / indirect ownership in either case)? If we would have to include the value of the interests acquired in X, how would we value such interests if X does not hold anything before it acquires controlling interests in the Target? I assume that we would not have to value such interests as the rollover would take place immediately prior to the acquisition of Target, at a time where X has no assets and thus its equity is worth zero.

Please advise,

[redacted]

BM
9/27/12

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The $10 million would not be included as consideration for the partnership interests.

On the rollover: 1) If the current partners retain their interests directly in the Target, they would not be included in the value of the transactions. 2) If they receive interests in the new entity, the value of 100% of Target would be included.

Examples

1) The current partners retain 25% of the interests of Target in aggregate. X acquires 75% of Target. The value is 75% of Target.

2) X acquires 100% of Target through acquisition vehicle Newco. Partners of X receive 25% of Newco as partial consideration. The value is 100% of Target.

BN
9/22/12
K-WALSH CONCURS